

GCC Fixed Income Weekly Review

Global benchmark bond index posted marginal gains over the week (ending 30th May 2023). US Treasury yields declined on reports of debt ceiling deal being finalized. Euro zone government bond yields dropped more than UST yields as Germany saw growth contracting for the second consecutive quarter. Corporate credit recorded marginal gains as the risk sentiment improved. Global HY index and EM USD bonds also ended the week on a positive note.

Appetite for GCC bonds was mixed over the week. Kuwait, Qatar and UAE recorded losses while Bahrain and Oman recorded marginal positive returns. Similarly, 5yr CDS sovereign spreads tightened in all GCC countries barring Bahrain and Dubai. 10yr USD bond yields mostly rose across the GCC with the exception of Bahrain and Dubai where yields were lower.

Abdullah bin Touq Al Marri, the Minister of Economy in the UAE, **announced that the country has surpassed expectations with its economic growth and has joined the prestigious 7% growth club. This growth was mainly driven by a 6.6% increase in the non-oil sector.** Elsewhere, Ali bin Ahmed Al Kuwari, the Minister of Finance in Qatar, confirmed that **the state's general budget recorded a surplus of QAR19bn in Q1 of 2023. The non-oil and non-hydrocarbon sector expanded by 6.7%, while the oil sector experienced a growth rate of 1.5% in 2023. Separately, according to the IMF, Bahrain experienced a growth rate of 4.9% in 2022.** This growth was primarily fueled by a 6.2% expansion in the non-hydrocarbon GDP, while the hydrocarbon GDP contracted by 1.4%. Lastly, in a new report released last week, Fitch ratings agency outlined that it expects that Oman's banks will experience lending growth and profitability in 2023 due to their reasonable credit fundamentals and improved operating conditions. **Fitch revised the outlook on Oman's banks operating environment factor score from stable to positive, aligning with the recent revision of Oman's sovereign rating from stable to positive.**

It was a quiet week in terms of issuance activity.

| Country | Saudi Arabia | Abu Dhabi | Dubai* | Kuwait | Bahrain | Oman | Qatar | Egypt |
|---------|--------------|-----------|--------|--------|---------|------|-------|-------|
| Moody's | A1 | Aa2 | Baa2 | A1 | B2u | Ba2 | Aa3 | B3 |
| Fitch | A+ | AA | - | AA- | B+ | BB | AA- | B |

Note: *Dewa rating used as proxy

GCC Fixed Income Weekly Snapshot

| | | | | Interest rates | | | |
|-----------------|-------------|----------|----------|----------------------------|--------|----------|----------|
| | | | | | | | |
| BBG Barclays | Latest | -1w % | YTD % | 3M interbank | Latest | -1w (bp) | YTD (bp) |
| EM USD Agg TR | 1091.3 | 0.42 | 1.6 | Saudi | 5.9 | 5.54 | 55.0 |
| EM LatAm TR | 934.6 | 0.46 | 1.5 | UAE | 5.2 | 12.93 | 91.1 |
| EM EMEA TR | 325.6 | 0.44 | 0.8 | Kuwait | 4.3 | 0.00 | 25.0 |
| EM Asia TR | 592.1 | 0.38 | 2.5 | Bahrain | 6.5 | 0.00 | 38.7 |
| Bahrain TR | 178.9 | 0.27 | 1.4 | Oman | 5.6 | -10.05 | 95.4 |
| Oman TR | 139.7 | 0.05 | 3.0 | Qatar | 5.9 | -7.50 | 60.0 |
| Kuwait TR | 143.2 | -0.19 | 2.4 | US | 5.5 | 5.13 | 72.2 |
| Qatar TR | 130.7 | -0.11 | 1.3 | 12M interbank | Latest | -1w (bp) | YTD (bp) |
| Saudi Arabia TR | 134.4 | 0.00 | 1.2 | Saudi | 5.8 | 3.35 | -6.8 |
| UAE TR | 134.3 | -0.04 | 1.8 | UAE | 5.3 | 17.97 | 20.6 |
| 5Y Sov. CDS | Latest (bp) | -1w (bp) | YTD (bp) | Kuwait | 4.7 | 0.00 | 12.5 |
| Saudi Arabia | 65.1 | -0.90 | 1.7 | Bahrain | 6.5 | 2.03 | -4.4 |
| Abu Dhabi | 41.9 | -1.20 | -5.7 | Oman | 5.8 | -9.80 | 87.5 |
| Dubai | 92.1 | 0.30 | -1.9 | Qatar | 6.0 | 0.00 | 25.0 |
| Kuwait | 52.2 | -1.30 | -8.4 | 10Y yield | Latest | -1w (bp) | YTD (bp) |
| Bahrain | 273.5 | 1.30 | 13.5 | Saudi Arabia ^{^^} | 4.8 | 1.40 | 3.7 |
| Oman | 170.1 | -1.40 | -20.9 | Abu Dhabi | 4.2 | 0.30 | 0.0 |
| Qatar | 42.7 | -0.80 | -7.3 | Dubai | 4.3 | -0.20 | -11.5 |
| Egypt | 1767.9 | -22.10 | 863.6 | Kuwait | 4.2 | 11.10 | 36.0 |
| Turkey | 620.7 | -53.50 | 102.8 | Bahrain | 7.0 | -9.40 | 14.3 |
| US | 45.1 | -21.50 | 18.0 | Oman | 6.0 | 3.60 | -10.3 |
| Germany | 15.6 | 0.90 | -5.0 | Qatar | 4.2 | 8.30 | 4.2 |

Note: data from 24th May 2023 to 30th May 2023, Source: Moody's rating, Fitch ratings, Bloomberg, ADCB Asset Management

^{^^} YTD data from 13th January 2023

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The UAE economy is expected to grow faster than the global average in 2023

Abdullah bin Touq Al Marri, the Minister of Economy in the UAE, announced that the country has surpassed expectations with its economic growth and has joined the prestigious 7% growth club. Last year, the UAE experienced a remarkable 7.6% expansion of its economy, which stands as one of the highest growth rates globally. This growth was mainly driven by a 6.6% increase in the non-oil sector. Minister Al Marri emphasized that the UAE's objective is to double growth of its economy by 2031, aligning with the vision outlined in the 2031 Vision plan. The International Monetary Fund (IMF) has projected a 3.5% growth rate for the UAE's economy in 2023, surpassing the global average of 2.8%.

(Source: Zawya)

Qatar recorded a USD5.2bn budget surplus in Q1 of 2023

Ali bin Ahmed Al Kuwari, the Minister of Finance in Qatar, has confirmed that in Q1 of 2023, the state's general budget recorded a surplus of QAR19bn. This surplus will be allocated towards paying off public debt, bolstering the reserves of the Qatar Central Bank, and enhancing the assets of the Qatar Investment Authority. Meanwhile, the economy of Qatar has grown by 4.8% y-o-y over the past year. The non-oil and non-hydrocarbon sector expanded by 6.7%, while the oil sector experienced a growth rate of 1.5% in 2023.

(Source: Zawya)

Bahrain's economy expanded 4.9% in 2022 due to fiscal reform and oil prices

According to the International Monetary Fund (IMF), the economy of Bahrain experienced a growth rate of 4.9% in 2022. This growth was primarily fueled by a 6.2% expansion in the non-hydrocarbon Gross Domestic Product (GDP), while the hydrocarbon GDP contracted by 1.4%. The non-hydrocarbon growth was predominantly driven by the public, financial, hospitality services, and manufacturing sectors. Inflation, as measured by the Consumer Price Index (CPI), saw an average acceleration to 3.6% in 2022. With the economy on a path of recovery, ongoing fiscal reforms, and an increase in oil prices, there was a significant reduction in the state budget deficit, narrowing it down to 1.7% of GDP in 2022. Additionally, the overall fiscal deficit declined to 6.1% of GDP. Government debt also witnessed a decline, reaching 117% of GDP in 2022. The current account demonstrated notable improvement, displaying its largest surplus in several decades, estimated at 15.4% of GDP in 2022.

(Source: Zawya)

Fitch ratings expects Oman banks to benefit from improved conditions

In a new report published last week, Fitch ratings agency outlined that Oman's banks will experience lending growth and profitability in 2023 due to their reasonable credit fundamentals and improved operating conditions. Fitch expects a 4.0% increase in credit growth, supported by factors such as high oil prices, healthy economic growth, low inflation, and positive employment prospects. Fitch rating agency also revised the outlook on Oman's banks operating environment factor score from stable to positive, aligning with the recent revision of Oman's sovereign rating from stable to positive.

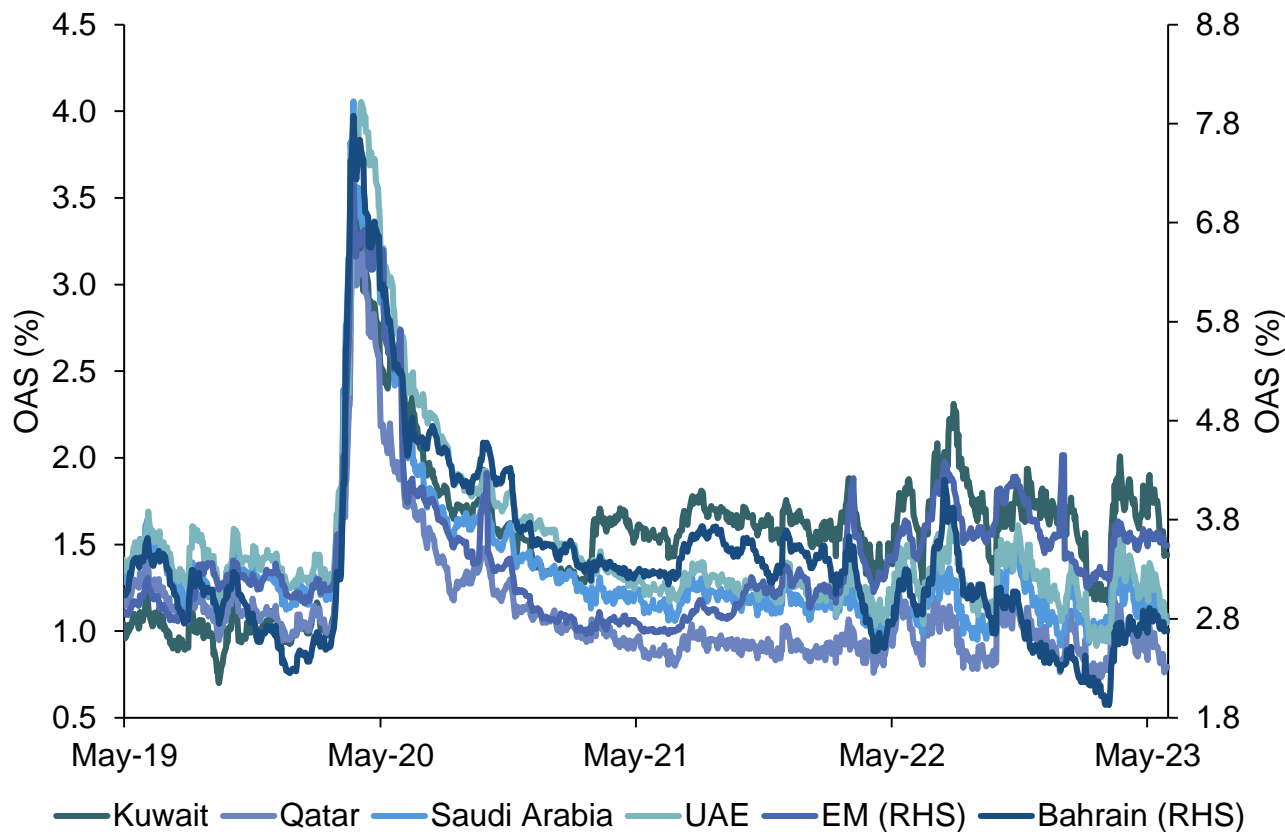
(Source: Zawya)

| Issuer | BBG | Sector | Co unt ry | Issue Amt* | Cpn | Maturity | Maturity Type | Curr ency | Issue Date | Rtg [^] | YTM (mid) | YTC (mid) |
|---------------------------------------|--------|------------------------|-----------------|---------------|-------|------------|------------------|--------------|---------------|------------------|--------------|--------------|
| ABU DHABI NATIONAL ENERGY | TAQAUH | Agency | AE | 500 | 4.375 | 1/24/2029 | AT MATURITY | USD | 4/17/2023 | AA- | 4.07 | - |
| ABU DHABI NATIONAL ENERGY | TAQAUH | Agency | AE | 1000 | 4.696 | 4/24/2033 | AT MATURITY | USD | 4/17/2023 | AA- | 4.70 | - |
| Alpha Star Holding VII LTD | DAMACR | Financial Institutions | AE | 400 | 7.75 | 4/27/2026 | AT MATURITY | USD | 4/27/2023 | | 7.46 | - |
| MDGH GMTN RSC LTD | MUBAUH | Financial Institutions | AE | 1000 | 4.375 | 11/22/2033 | AT MATURITY | USD | 5/11/2023 | AA | 4.52 | - |
| MDGH GMTN RSC LTD | MUBAUH | Financial Institutions | AE | 500 | 5.084 | 5/22/2053 | AT MATURITY | USD | 5/11/2023 | AA | 5.01 | - |
| KSA SUKUK LTD | KSA | Sovereign | SA | 3000 | 4.511 | 5/22/2033 | AT MATURITY | USD | 5/15/2023 | A+ | 4.52 | - |
| KSA SUKUK LTD | KSA | Sovereign | SA | 3000 | 4.27 | 5/22/2029 | AT MATURITY | USD | 5/15/2023 | A+ | 4.28 | - |
| Aldar Investment Properties Sukuk Ltd | ALDAR | Financial Institutions | AE | 500 | 4.875 | 5/24/2033 | AT MATURITY | USD | 5/17/2023 | BBB+ | 5.05 | - |
| NOGAHOLDING SUKUK | OILGAS | Sovereign | BH | 750 | 6.625 | 5/25/2033 | AT MATURITY | USD | 5/17/2023 | B+ | 6.51 | - |
| MAJID AL FUTTAIM HOLDING | MAFUAE | Financial Institutions | AE | 500 | 5 | 6/1/2033 | AT MATURITY | USD | 5/23/2023 | BBB | 5.12 | - |
| BANQUE SAUDI FRANSI | BSFRAB | Financial Institutions | SA | 900 | 4.75 | 5/31/2028 | AT MATURITY | USD | 5/23/2023 | | 4.83 | - |

*Amount Issued in USD/AEDmillion, Bloomberg sector classification has been used, ^Issuer rating used where applicable, Fitch rating or equivalent used Source: Fitch Ratings, Moody's ratings, Bloomberg, ADCB Asset Management

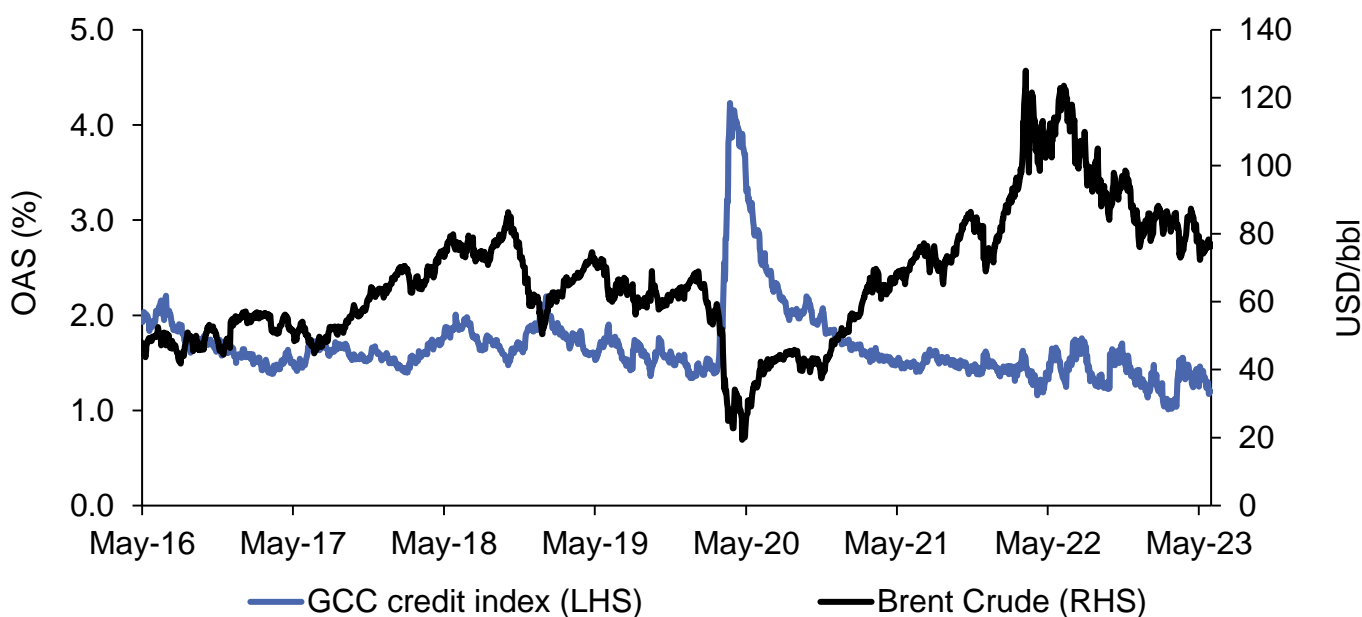
Appendix

Bloomberg Barclays Bond Indices OAS spread (EM vs GCC)



Source: Bloomberg Sovereign Bond Indices, ADCB Asset Management

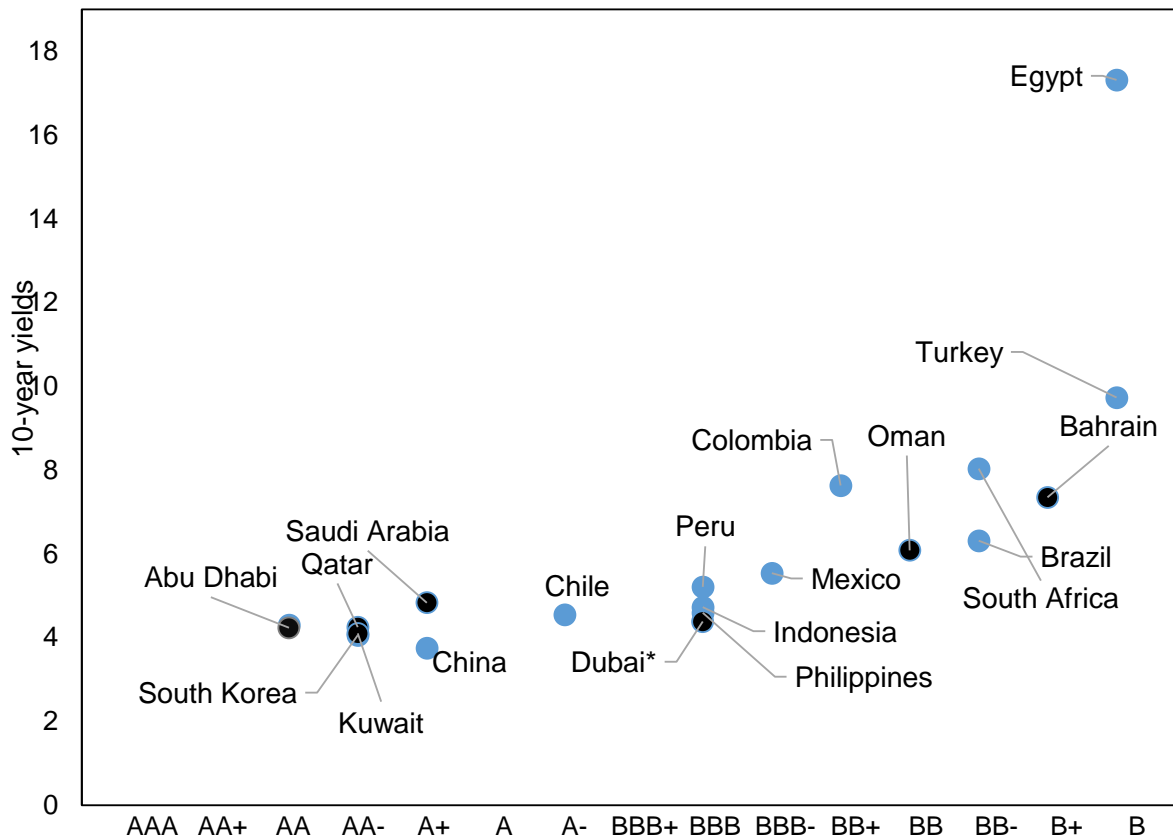
GCC corporate OAS spread versus Brent Crude



Source: Bloomberg, ADCB Asset Management

10yr yield versus Credit ratings (EM vs GCC)

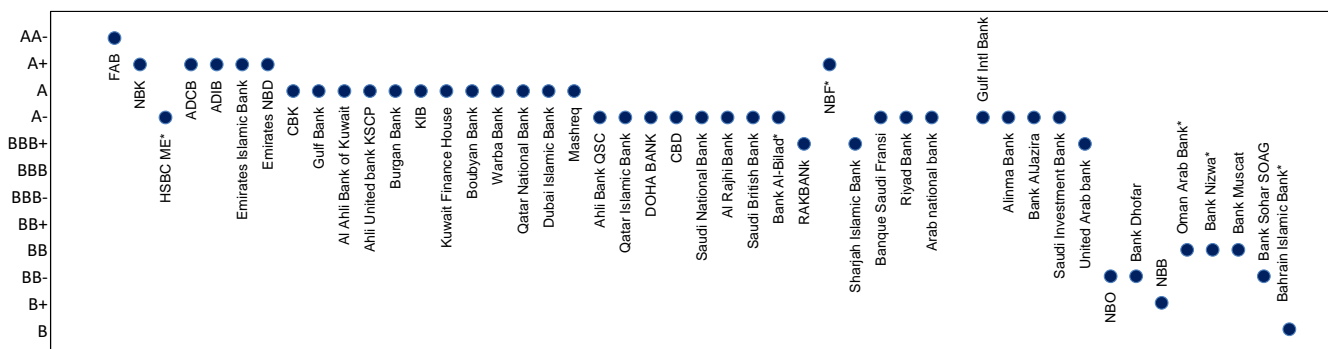
GCC sovereign valuation versus peers



Source: Bloomberg, ADCB Asset Management, *Dewa rating used as a substitute for Dubai, Fitch ratings are used for all countries

GCC Financials Credit Rating

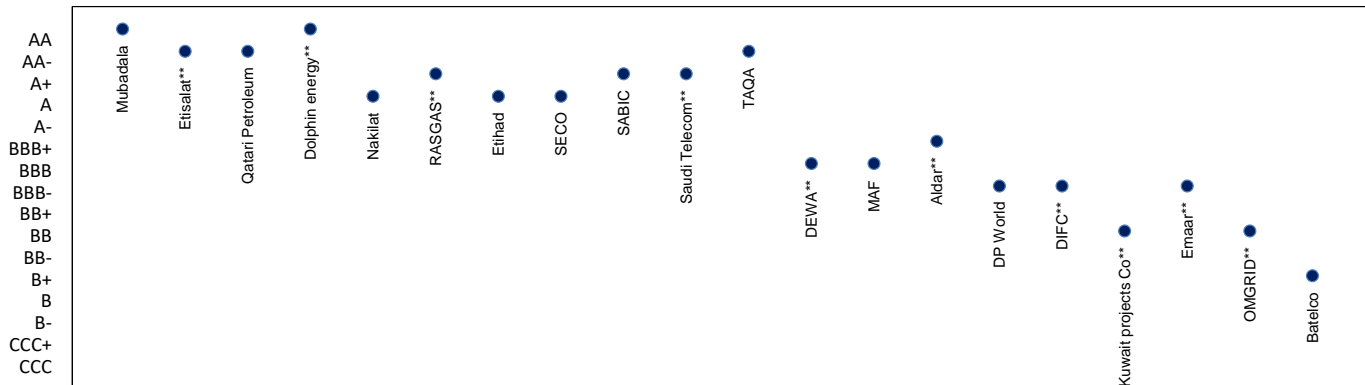
GCC Financials



Note: The ratings refer to Fitch ratings, *Moody's rating used as substitute where the corporate/bank not rated by Fitch rating
Source: Bloomberg, ADCB

GCC Corporate Credit rating

GCC Corporates



Note: The ratings refer to Fitch ratings, **Moody's rating used as substitute where the corporate/bank not rated by Fitch rating
Source: Bloomberg, ADCB

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